

# Where's The Money?

## *The Idaho Technology Entrepreneurs Search For Capital*



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When ProClarity Corp. launched in the mid-90s, it did so on the bank accounts of its founders. It was a slim operation and pennies were watched closely. Executive offices were furnished in the décor of a freshman's college dorm room and founders went without a salary for two years.

By the late '90s, the business intelligence software company was on a growth streak and all revenues were poured back into the company.

More funding was needed, but ProClarity, like most technology start-ups, didn't have enough assets to get traditional commercial bank loans.

Finding sources of capital for technology entrepreneurs is more difficult simply because these innovators typically need large sums upfront, sometimes long before a product is ready for sale. That means traditional financing isn't available.

Venture capital, private funds that invest in high-risk technology companies in trade for equity, was the established route for fast-growing tech firms. But VC money was non-existent in Idaho at the time.

"Prior to 2001, it was difficult for Idaho companies to obtain funding from venture capital firms," said Phil Bradley, a founder and chief financial officer for ProClarity. "There were no local firms at that time. ProClarity talked to several VC firms in the Bay Area and in Seattle in the late 1990s, and even

though our business was going well, the consistent feedback we got was that we should consider moving the company to California or Washington if we wanted funding."

The funding picture for entrepreneurs has changed dramatically in Idaho over the past five years.

Today, there are two resident venture capital companies and several others that visit frequently or have part-time offices here. There are two angel investment groups and a stronger statewide effort at educating innovators

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about a federal grant program that gives away about \$2 billion annually.

There are also more services available – often free or discounted – that relieve some of the funding burden off of technology start-ups.

- TechHelp, which focuses primarily on manufacturers, also offers a rapid prototype development service at often-discounted prices through its Boise office.
- TechConnect, a statewide program with offices in Nampa, Post Falls and Idaho Falls, provides entrepreneur-mentoring services.

- The TECenter in Nampa offers incubator space that is paired with mentoring and guidance.
- Universities and colleges statewide have done a better job at communicating the free business plan and marketing plan development their students can offer.
- The Idaho National Laboratory has begun marketing itself as a partner to businesses, offering engineering talent and services.

In addition to all that, the technology world changed around Idaho. When the dotcom bubble burst and technology job layoffs began in earnest nationwide, venture capital money didn't dry up. It went on hold, as investors became leery about having their money go into an area that had become very unstable.

Venture capital firms became choosier about where to put their investor funds and were finally willing to look outside the Silicon

Valley, Seattle or East Coast regions. Finally, places like Salt Lake City, Portland and Boise were seeing VCs interested in visiting their areas and funding their companies.

ProClarity was slightly ahead of the curve. Moving out of Idaho was not of interest to Bradley and his partners. They had the savvy and the connections to attract an underground network of funding – through "angels" or private individual investors willing to put money into high-risk areas such as technology start-ups. ProClarity found \$5 million in angel

funding, mostly from Idaho investors, which was enough to propel the company to \$12 million in annual revenue.

At that point, ProClarity was high on the radar for VCs ready to move into second- and third-tier markets.

"In 2002, we raised \$7.8 million from a large VC firm in the Bay Area," said Bradley. "We had at least four other large national firms that were also interested in doing this deal. Today VC money is much more available to Boise-based companies than it was in the 1990's. National VC firms are willing to look at good opportunities in Boise, and there are local VC firms as well, which did not exist in the 1990s."

MarkMonitor, another Idaho technology firm that started in the late '90s, has a similar story to tell. Funded by founders' private bank accounts, they quickly found an Idaho connection to a Silicon Valley VC firm.

"The VC firm that eventually funded us had a general partner with property located in Sun Valley," said MarkMonitor founder and chairman Faisal Shah.

Shah, who has recently launched another start-up firm called First to File in Idaho, said there are definitely more funding options now.

"As more companies in Idaho get funded by outside VC firms, it brings added exposure to the state and the companies located here," he said. In addition, Shah added that there are also at least two major banks with technology loan divisions – Comerica and Silicon Valley Bank – that have provided loans to Idaho start-ups and keep a watch on growth firms here. That's the good news.

There are plenty of entrepreneurs who still ask, "Where's the money?" Even those who have found success in raising capital in Idaho say there's more to be done.

John Shovic has launched five companies in northern Idaho, relying primarily on individual investors – or angels – to finance their start. He's also used friends and family as resources, as well as credit cards and bank loans backed by his personal assets.

"There is little direct financial support available on the state level and little indirect 'tax saving' types of incentives for the angel investor," said Shovic, now chief technical officer for his latest start-up, MiloCreek, where he provides start-up services and technical due-diligence to the investor community. "There is also less of a support network for the entrepreneur and fewer angel groups in Idaho."

Pocatello firm Positron Systems agrees with this assessment, adding that marketing and awareness of Idaho as a technology center helps outside VCs learn about companies here.

"It would be a boon to Idaho's economy were more funds aware of investing opportunities," said Keith McClellan, president of Positron. "Efforts such as the Intermountain Venture Forum are a great step in bringing outside VC firms to Idaho."

The Intermountain Venture Forum, an annual event held each October in Boise, brings several dozen venture firms and investors together to view presentations by start-ups from throughout the region. While no direct investments have been tied to the event, several presenting companies have gone on to later receive angel and VC monies.

"It's a dating service," said John Hale, who chaired this year's event. "And it showcases the talent pool we have here. IVF is like a megaphone announcing that there is a significant technology economy here."

The event includes a process where companies that are selected to present are assigned mentors who assist entrepreneurs in developing their business plan and presentation. That type of mentoring becomes critical to new entrepre

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neurs who don't understand the very defined process of making a presentation to investors.

Scott Ritchie, director of operations for Position Systems, lists "coaching and critical feedback" as an important part of making access to capital easier for start-ups.

"Venture funds, angel investors, etc. in Idaho are exposed to many opportunities and are savvy, especially in technology-oriented businesses," said Ritchie. "A company must have an above average business proposition to even get the attention of the funding sources. The business proposition needs to excel above the crowd."

Getting companies ready to approach investors is the key reason behind TechLaunch, an event held in Sun Valley each June, where start-ups are mentored through the presentation process. The program, led by Idaho TechConnect offices with support from the Idaho National Laboratory and the state Office of

Science & Technology, provides a \$10,000 prize as incentive to participants.

"We saw about a 50 percent growth in attendance in TechLaunch this year over last year," said Ray Barnes, who spearheaded TechLaunch in his role as chairman of Idaho TechConnect's board of directors and director of technology transfer and commercialization at INL.

"The desire is that over time the event will become better known and draw more investors interested in very early stage companies."

Combining funding and mentoring is also the goal of Idaho TechConnect, which this year began assembling a statewide board of directors that will ultimately steer the organization toward providing seed money for start-ups.

"The intent is these will be very very early stage investments of about \$5,000 to \$10,000," said Barnes, adding this scenario is at least a year

away. "We are hoping to get some support from the state in this, but we'll also enlist the involvement of corporate citizens across the state."

Barnes points out that the funding portion is less important than the mentoring offered by these organizations "because an awful lot of would-be start-ups never lift off because they don't understand some basic things needed to succeed."

Karl Tueller, executive director of the Idaho Office of Science & Technology, said all elements are important in building an infrastructure that supports entrepreneurs.

"We see programs such as the Intermountain Venture Forum and TechLaunch, along with mentoring services offered through the state TechConnect offices, as very important pieces in this equation," said Tueller. "We need to continue to improve all parts of the funding process—from mentoring entrepreneurs and

# Small Business Innovation Research Grants

For years, Rick Ritter has chanted this mantra to anyone who will listen: \$2 billion, \$2 billion.

That's the amount in federal grants given to entrepreneurs every year to develop emerging technologies. The federal grants are provided through the Small Business Innovation Research (SBIR) program, which was developed to drive innovation and new technologies through small business throughout the country.

Ritter's frustration has been that the SBIR program has been relatively unknown in Idaho and that those seeking funding may be missing an opportunity. Ritter, who works with entrepreneurs through the state TechConnect office in Nampa, has helped several companies through the grant process.

Ritter's efforts recently have been given a boost by the Idaho Office of Science & Technology.

Increasing the number of SBIR awards in Idaho – and getting more companies access to this federal grant program – is a key focus of the Office of Science & Technology. Jeff Viano, Idaho SBIR Program coordinator and a specialist in the Office of Science & Technology, has been working to link resources

INL has pledged support to the program by giving eligible entrepreneurs and small businesses access to their team of proposal development professionals

from Idaho universities, colleges and the Idaho National Laboratory with businesses involved in innovative research and development activities.

Viano is working with INL, Idaho's three regional TechConnect offices, regional economic development personnel and representatives from the state's higher education institutions to develop a process for provid-

ing entrepreneurs with hands-on assistance in the proposal development process.

"INL has pledged support to the program by giving eligible entrepreneurs and small businesses access to their team of proposal development professionals," said Viano. "It's going to be a really unique make-up of state, federal and local officials providing one-on-one assistance to our Idaho SBIR applicants," he said.

"The SBIR program provides initial funding of up to \$100,000 for proof-of-concept grants, and has the potential for later-stage awards of up to \$1 million for commercialization efforts," said Viano. "Historically, Idaho has not received a proportionate amount of federal SBIR funding, and we are working to develop new services to help businesses apply for and win these grants. This funding will increase the growth of innovative Idaho businesses and it provides a positive impact on our state's economy."

*Continued on page 63*



connecting them to services, to encouraging more angel investments in the state, to building bridges to outside investors.”

The technology investment community is encouraged by the partnerships and growing infrastructure they see in Idaho, making it a better place to put their money.

“Both the quantity and quality of deal flow have improved steadily in Idaho as a result of a strong technology base, the development of a supportive infrastructure, an emerging recognition of Idaho as a great place to start and grow a business, and emerging interest from qualified individuals in starting companies,” said Phil Reed, a partner in Highway 12 Ventures, a venture capital firm located in Boise. “With local VC firms and experienced angel investors involvement in local companies on the rise, outside VC investment in the area is on the upswing. For example, for every dollar that Highway 12 has invested in our portfolio companies, we bring in approximately \$7 from



The Team at ProClarity—Back row: Chuck Mitten, VP of Channels; Johan Pellicaan, Managing Director of ProClarity International; Russ Whitney, VP of R&D; Dennis Weyrauch, VP of Corporate Services; Clay Young, VP of Strategic Marketing. Front row: Bob Lokken, President and CEO; Phil Bradley, CFO; Jamie Cooper, VP of Corporate Marketing; Dave Hallmen (former COO)

*Continued from page 62*

The Office of Science & Technology is also exploring methods for providing proposal-development funding to offset some of the cost that businesses and entrepreneurs incur as part of the grant-writing process.

“Successful SBIR programs in other states have shown that a small infusion of grant-writing-assistance funding can have a huge return on investment,” Viano said. “We’re hoping to level the playing field by providing similar funding to our eligible small businesses and entrepreneurs in Idaho.”

Just this year, several Idaho companies received significant funding from the SBIR program to develop everything from pharmaceutical packaging to a sophisticated testing device that makes aircraft parts safer.

Eleven federal department and agencies participate in the program and solicit proposals for specific types of technologies. There is no fee to apply. Proposals are reviewed and grant recipients are announced annually.

The federal agencies involved are: Department of Agriculture, Department of Commerce, Department of Defense, Department of Education, Department of Energy, Department of Health & Human Services (NIH, CDC, FDA, AHRQ), Department of Homeland Security, Department of



Transportation, Environmental Protection Agency, National Aeronautics & Space Administration, and the National Science Foundation.

Positron Systems, based in Pocatello, has received several SBIR grants over the years and this year received its first follow-on Phase II grant for product development. Positron Systems Director of Operations Scott Ritchie encourages young companies to explore the program as a possibility for funding.

“By definition, the SBIR program is looking to fund ‘early stage R&D in small technology companies,’” said Ritchie. “Therefore, a small technology company with an innovative product/solution that solves a specific need is more likely to win an award.”

Ritchie said entrepreneurs can look at each round of SBIR solicitations to get a feel for

the “areas of need” and then determine whether the grant would be a fit. He cautions that the program is not for everyone and companies certainly shouldn’t view it as a sole source of start-up funds.

“I would recommend this program, but I wouldn’t rely solely on the SBIR program,” he said. “The program is highly competitive and a lot of energy and resources can be expended with no payback.”

Viano believes building a statewide coordination effort will increase the success rate of SBIR grants in Idaho.

“Through the Idaho SBIR Program, we are working to provide companies with an opportunity to get one-on-one proposal-development assistance to increase their odds of receiving an award,” said Viano. “Idaho has an abundance of innovative businesses and entrepreneurs, and we’re going to help them access this source of federal research and development funding.”

TechConnect’s Ritter emphasizes that this effort is a good first step – and that there are also many other federal resources available for savvy entrepreneurs.

“The SBIR program is only one of numerous federal programs that can be utilized by companies,” said Ritter. **IQ**



other VC firms through syndication. Outside VC firms become more comfortable in investing in Idaho start-ups when there are capable local VCs involved in the syndicate."

Boise Angel Alliance President Steve Simpson knew the time was ripe 18 months ago to launch an angel investment group, but has been surprised at the quality and number of deals his group is seeing.

"We are seeing more and better deals every month," said Simpson, adding that at the most recent meeting, the group had received 19 applications and agreed to allow four to present. "Part of it is there's growing awareness of the Boise Angel Alliance, and part of it is there are more entrepreneurs out there."

The variety of companies has also come as a surprise.

"Initially, I thought we'd have all software companies," he said. "We've seen biotech,

to prepare and connect companies with investors. No one group does it all."

Like others, Leatha also says the growing infrastructure to help start-ups is creating a more positive environment for investors.

"It's amazing, but just when we think we've seen all the really good regional opportunities, another comes along," he said. "Our colleges, laboratories, incubators and support organizations are helping generate more and more start-ups that keep our pipeline filled. We present about 10 companies a year to our members and anticipate that increasing as more and more local success stories encourage or spin-out new start-ups."

The success of entrepreneurs in Idaho has drawn the notice of several out-of-state investors, including Frazier Technology Ventures which opened a part-time office in Boise.

"Idaho's trajectory, and that of Boise in particular, is following an arc that is similar to the

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consumer products, services and others. It's been a much broader base of start-ups than I would have expected from our area."

Because the BAA doesn't invest as a group, instead leaving it up to individual members to contact presenting companies privately, there is only anecdotal data about how many start-ups have been funded by the organization. At least two presenting companies have received investment from BAA members, however, and at least one other "said he never would have gotten funding without the mentoring we provide," said Simpson.

Simpson believes that as members share their investment successes with other members, more investments will take place and membership will grow.

The Delta Angel Group in northern Idaho started three years ago and has seen active participation by its members.

"We've had about 30 companies present to potential investors and well over half of these companies have seen investments from local investors," said Norma Leatha, president of DAG. "But it would be very misleading to suggest that these investments were all the result of presenting at DAG. We're one of several organizations in the region that work together

historical development of venture financing in Silicon Valley, Boston, Seattle and Research Triangle Park many decades ago," said Len Jordan, a partner in Frazier Technology Ventures and who heads the Boise office. "At least a dozen venture capital firms have invested in Idaho technology companies and many more firms have spent time evaluating and considering investments in the state."

Jordan said his firm has not yet made an Idaho investment but works with companies every month, often mentoring them to reach other sources of funding.

"Idaho has many of the right attributes to develop a thriving economic technology ecosystem but it does take time," said Jordan. "The state and country as a whole cannot focus enough on developing a world-class education system in science and mathematics for both K-12 and the collegiate level. The development of one best-of-class research/engineering university in the state will yield both the innovations that lead to great companies and the development talent necessary to build and lead those companies and their products."

One of Idaho's newest start-up companies exploring the funding process is ImQuant, a biotech company started by Dr. Timothy Sawyer, medical director of the cancer program for

Saint Alphonsus medical center in the Treasure Valley.

So far, Sawyer is encouraged by what he sees. "I am early in the process, but so far, my impression is that there are many investors in Idaho who are willing to back good ideas," said Sawyer, who is exploring angel investments and grants from the National Cancer Institute as part of the firm's start-up financing. "Obviously, these investors want to make money. However, I also feel that there are a number of sophisticated businesspeople who have a sense of commitment to the community – who know that the Treasure Valley and Idaho will not prosper without an infrastructure in place that nurtures start-ups and good ideas." **IQ**

## Looking for funding in Idaho?

Here's who to contact

- Boise Angel Alliance. Individual investors listen to pre-screened proposals and make private investments. Based in Boise. [www.boiseangelalliance.com](http://www.boiseangelalliance.com)
- Delta Angel Group. Individual investors listen to pre-screened proposals and make private investments. Based in Spokane/Post Falls/Coeur d'Alene region. [www.deltaangelgroup.org](http://www.deltaangelgroup.org)
- SBIR federal grant program. Small Business Innovation research grants are competitive grants provided by several federal agencies, with about \$2 billion available each year. [www.technology.idaho.gov](http://www.technology.idaho.gov) or call Jeff Viano, Idaho SBIR Program coordinator, (208) 334-2650 ext. 2118.
- TechConnect, and TechLaunch programs – Call Rick Ritter, (208) 426-6613 (Nampa); Hank Artis, (208) 262-2039 ext. 1450 (Post Falls); or Bill Sellers, (208) 523-9898 (Idaho Falls).
- Frazier Technologies – [www.fraziertechnology.com](http://www.fraziertechnology.com)
- Highway 12 Ventures – [www.highway12venture.com](http://www.highway12venture.com)
- Silicon Valley Bank – [www.svb.com](http://www.svb.com)
- Comerica Bank – [www.comerica.com](http://www.comerica.com)
- Zions Bank – [www.zionsbank.com](http://www.zionsbank.com)